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CHEMAGRO CORPORATION

Past History, Future Prospects

Final

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EXHIBIT N

II CHEMAGRO'S HISTORY

1950-1953

In 1950 Geary Chemical Corp. and Pittsburgh Coke & Chemical Company jointly formed a New York corporation under the name of Chemagro Corporation to exploit a license agreement relating to new agricultural chemical developments of Farbenfabriken Bayer A.G. of Leverkusen, Western Germany. The contract was between Geary Chemical Corp. and Bayer.

From its formation until November 1, 1953 the capital stock of Chemagro Corporation was owned fifty percent by Pittsburgh Coke & Chemical Company and fifty percent by Geary Chemical Corp. which was, in turn, owned by a small group of individual investors.

In accordance with the terms of the contract between Pittsburgh and Geary Chemical relating to the formation of Chemagro, Pittsburgh built on its property to specifications furnished by Bayer, a plant for the manufacture of phosphate insecticides, and the output of this plant was sold at cost to Chemagro for resale to the trade so that all profit deriving from the manufacture and sale of these products would accrue within Chemagro to the benefit of the equity owners of the corporation. The cost of the plant was, by agreement, amortized over a three year period to Chemagro, but the plant remained Pittsburgh's property.

Chemagro's original capitalization was only \$200,000, and this amount proved wholly inadequate to meet its requirements. Accordingly, since the company was not at that time in a position to negotiate a line of credit on its own, Pittsburgh Coke & Chemical Company carried the costs of manufacture charged to Chemagro on open account and Chemagro paid interest on the overdue portion.

During 1950 and 1951 Chemagro incurred operating losses totaling \$238,000, but in 1952, with the introduction of a new Bayer systemic insecticide called SYSTOX, Chemagro turned the corner and showed a net profit of \$27,186 after paying an aggregate of \$54,370 to Pittsburgh and Geary Chemical for certain services performed on its behalf by them. In 1953 Chemagro had a net profit of \$139,819 after similar payments totaling \$286,628 to Pittsburgh and Geary Chemical.

1954-1955

Bayer had been concerned at Chemagro's undercapitalized position and its early losses, but the results achieved in 1952 and 1953 despite the heavy plant amortization load Chemagro was absorbing (\$407,600 from 1951 to 1953 inclusive).

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convinced Bayer that Chemagro's future potential was bright and they evidenced a desire to acquire a one third equity interest in the Company. Both Pittsburgh and Geary Chemical desired to strengthen Chemagro financially and from a technical standpoint by having Bayer acquire an equity in the corporation. Pittsburgh and Geary Chemical each owned 350 shares of Chemagro Corporation stock. On November 1, 1953 Chemagro's charter was amended so as to permit the sale of 350 shares of Common Stock to Bayer for \$100,000, and the capitalization was thus increased to \$300,000.

As indicated above, the introduction of SYSTOX had a major impact upon Chemagro's earnings. Gross sales increased from \$1,188,000 in 1952 when SYSTOX was in short supply to \$2,109,000 in 1953 when SYSTOX was available in large commercial quantities. The peculiar effectiveness of the product coupled with its novel systemic mode of action resulted in the trade overestimating its initial acceptance. As a consequence there were heavy carry-over trade inventories at the end of the season which adversely affected sales and production in 1954, so that Chemagro ended 1954 with a net operating deficit of \$182,932 on sales of only \$1,494,000.

The unfavorable impact of the heavy carry-over inventory on SYSTOX was, however, temporary, and in 1955 Chemagro's sales more than doubled to \$3,466,000 and the company ended the year with a net profit of \$445,844.

1956

By the end of Fiscal 1955 it had become apparent that if Chemagro was to reach its future potential it would have to be strengthened in many ways. It required additional manufacturing facilities for new products which were flowing from Bayer; it required research facilities of its own because it had up until then been renting some facilities from Pittsburgh which were no longer adequate; and it required a major personnel increase in sales, research, accounting and manufacture. It was apparent that there was no practical means of providing Chemagro manufacturing and research facilities on property belonging to Pittsburgh Coke & Chemical Company and that Chemagro had reached a point where it should acquire property and construct facilities of its own.

It had also become clear that, while Chemagro's principal problem was lack of manpower and facilities to exploit the new products coming from Bayer, Pittsburgh's own Agricultural Chemical Division (at that time one of several customers of Chemagro's) had a good sales organization but an unsatisfactory product line. In brief, Chemagro had many good products and few people, while Pittsburgh had many good people and few products. The obvious answer was to merge the personnel of Pittsburgh's Agricultural Chemical Division into Chemagro.

At the same time it became apparent that a simplification of corporate structure was desirable. Accordingly, Chemagro Corporation and Geary Chemical Corp. were consolidated with Geary Chemical Corp. as the surviving corporation taking the name Chemagro Corporation, and the personnel of Pittsburgh's Agricultural Chemical Division were merged into Chemagro.

At the same time the contractual obligations of Bayer and Pittsburgh to Chemagro were strengthened. In an Agreement dated as of November 1, 1955 these companies agreed that their present and future exploitation of the agricultural chemical business in the United States and Canada would be conducted through the medium of Chemagro. The Agreement remains in effect until December 31, 1967 and thereafter

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unless or until terminated by either Bayer or Pittsburgh after two years prior written notice. In the event of such termination any exclusive licenses theretofore granted Chemagro remain exclusive for a period of three years from the termination date, and all licenses theretofore granted Chemagro continue after the end of this three year period on a non-exclusive basis. Bayer and Pittsburgh each became the owners of an equal number of shares of voting stock in the newly consolidated corporation and the former individual stockholders of Geary Chemical Corp. exchanged their shares for non-voting stock in the newly consolidated corporation.

A Finance Letter Agreement, dated February 1, 1956, was simultaneously entered into under which Chemagro received \$1,200,000 in loans or guaranteed line of credit from three of its individual and both of its corporate (Bayer and Pittsburgh) stockholders, as well as certain other financial benefits referred to later in this memorandum.

In 1956 Chemagro had sales of \$6,450,000 on which a net profit of \$447,374 was realized. But, by the end of the fiscal year the need for additional financing was apparent. Twenty-five acres of property, with an option on an additional twenty-five acres, had been acquired in Kansas City, Missouri, and administration, research, manufacturing and warehouse facilities were being erected there which involved substantial capital investment and operating expenses.

Accordingly, in February 1957 Chemagro offered on a preemptive rights basis, and certain of its stockholders purchased, a total of \$1,144,057 of additional capital stock and, in accordance with the terms of the Finance Agreement of February 1, 1956, Chemagro was granted an additional \$1,200,000 of guaranteed bank credit by Bayer and Pittsburgh good until October 31, 1958.

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